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SUBJECT: The Japan Economic Scope--November 1, 2007

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----- FISCAL ISSUES -----

[1](#)3. (U) Citigroup Shares to Hit TSE November 5

Citigroup will list its shares on the Tokyo Stock Exchange effective November 5, under the name "Citi".

Citigroup CEO Chuck Prince stated, "Citigroup is listing on the Tokyo Stock Exchange because we believe in the continuing prominence of Tokyo as a global financial center and view Japan as an attractive market for growth," a sentiment underscored by Citi's recent purchase of brokerage Nikko Cordial, using Citi stock valued at 530 billion yen (\$4.6 billion).
(FINATT: Mateo Ayala)

14. (SBU) Unemployment Rises Slightly to 4%

Rising for the second straight month, the seasonally adjusted unemployment rate increased 0.2 percent to 4.0 percent in August. The job openings-to-seeker ratio also dipped, to 1.05, according to statistics released by the Japanese government.

Analysts cautioned against overreacting to the rise, given the sustained and rapid decline in the unemployment rate since 2002. One suggested, however, that softness in the labor market indicates growing uncertainty about the global economic environment. Another noted that female and part-time workers have been most affected by deteriorating labor market conditions. (ECON: Marc Dillard)

15. (U)CPI Down 0.1% in September, 8th Consecutive Monthly Drop

Japan's nationwide "core" CPI, which excludes perishable food

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items, fell 0.1 percent in September from the year before, the same rate of decline as in each of the previous five months and the eighth consecutive monthly decline, the Ministry of Internal Affairs and Communications (MIC) announced October 26. This result was in line with the market consensus forecast. The overall CPI was down 0.2 percent in September from a year earlier, the same rate of decline as in August. (FINATT: Shuya Sakurai)

16. (U) BOJ's Economic Outlook: No Surprises

In their semi-annual "Outlook for Economic Activity and Prices," Bank of Japan (BOJ) Policy Board members generally maintained their assessments laid out in last April's report, while underscoring uncertainties about overseas economies and global financial markets. The Board Members projected real GDP growth of 1.8 percent in FY07 (April 2007 to March 2008) and 2.1 percent in FY08, which the report characterized as "on average, somewhat higher than the potential growth rate".

They also projected that "core" CPI would register no change in FY07 and would increase 0.4 percent in FY08.

The BOJ's growth and core CPI inflation projections were more or less in line with those of private analysts. The outlook report noted that the adverse effects of the U.S. sub-prime mortgage loan problems and the consequent volatility in global financial markets on Japan's financial conditions had been limited.

In addition, the report lacked clear signals about the intended pace for raising the operating target for the overnight call money rate from the present 0.5 percent, saying only that the BOJ would adjust interest rate levels gradually in response to economic and price conditions. Many market observers expect a hike in the policy rate in the first quarter of 2008. (FINATT: Shuya Sakurai)

17. (SBU) Nagasaki City Resumes Whale Meat School Lunches

Nagasaki, a city with a long history of whaling, has resumed regular use of whale meat in school lunches, introducing whale meat dishes to more than 100 local schools since April 2007.

Whale meat has been served to the over 40,000 public elementary and junior high students already this year in an effort to impart the region's "whale culture" to the younger generation.

Regular use of whale meat in school lunches ended two decades ago when a moratorium on commercial whaling was imposed. However, the effort to reintroduce whale meat on the school lunch menu took over a year in order to properly train school staff in preparation of whale meat menu items.

Japan's Institute of Cetacean Research (ICR) sells Atlantic minke whale meat to the city's school lunch association at one third of the wholesale price (comparable to the price of other meats) for the "public interest." This price reduction eliminates the need for a city subsidy for school whale meat lunches.

In addition to Nagasaki City, Nagasaki prefecture also stated that more than 4.8 tons of whale meat would be served to more than 63,000 students in 350 schools in JFY 2007, double the amount served the previous year. (Fukuoka: Yuriko Funakoshi/Jim Crow)

18. (SBU) Beef Trade: Hot but Going Nowhere

The U.S. beef stand-off continues, with Japan refusing to move toward international standards. In Washington on October 29, Acting Agriculture Secretary Connor raised the subject of beef trade in a press interview, calling on Japan to lift age restrictions and bring its trade requirements in line with international standards.

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In Tokyo on October 30, Agriculture Minister Wakabayashi told reporters that Japan was still looking for the U.S. to respond to the working level experts' report that the GOJ side prepared after meetings the two countries convened over the summer.

"My position has not changed one bit," he told reporters at a Ministry press conference when asked about Connor's remarks. Wakabayashi insisted that Japan would "confirm the scientific knowledge that assures Japan of food safety and confidence." He concluded: "I have no intention of responding to the U.S. request just because the U.S. is applying pressure." (ECON: Nicholas Hill)

19. (SBU) Food Scandals Buffet Japan

"I've always tried to buy domestic because I thought that was safer, but now I can't trust anybody." So a 72 year-old Tokyo shopper told an AP reporter when asked about all the food scandals that have been percolating in the press in recent weeks.

The story by Hiroko Tabuchi appeared in the October 29 Japan Times, and is just one of many in the Japanese media. It cites a litany of scandals that have buffeted Japan's food industry, including repackaging foods already past their sell-by dates, and deliberately mislabeling mixed poultry, pork, beef, and even rabbit products as beef only.

According to Tabuchi, analysts point to stiff competition in the food industry, which has squeezed profits, and spurred producers to cut corners.

According to Nikkei, the extent of "misconduct" in the food industry is growing. There were some 1,241 cases in the June--September period, almost three times greater than the same period a year earlier. (ECON: Nicholas Hill)

HEALTH AND AGING

¶10. (U) Backsliding on Insurance for Elderly Suggests Return to Pork-Barreling

On October 30, the GOJ formally decided to suspend implementation of elements of a public health insurance reform law that would have increased payments by some elderly Japanese into the government-funded health insurance system.

This "limited suspension" of the new burdens on the elderly appears to be less a policy measure to address the needs of a vulnerable social group than a politically driven concession to vested interests marking a possible setback for structural reform. Please refer to attached document for further analysis. (FINATT: Shuya Sakurai)

¶11. (SBU) Japan's Faltering Healthcare System - Opportunities for U.S. Industry?

Growing demands from an expanding aging population, inefficient service providers and a burdensome regulatory approval process for pharmaceuticals and medical devices are straining Japan's government-funded universal healthcare system.

Nevertheless, the Fukuda administration appears poised to rollback cost-cutting measures agreed to under former Prime Minister Koizumi and mandated to go into effect in April 2008 as a means to shore up domestic support. At the same time, however, productivity gains and market liberalization could add as many as 1.1 million jobs to Japan's healthcare sector.

While the country's practices on pharmaceuticals and medical devices have long posed problems for U.S. producers, demographic and other developments may lead to a more open healthcare market with significant opportunities for U.S. industry. Stay tuned for a cable on this topic. (ECON: Sally Behrhorst/Eriko Marks)

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AVIATION

¶12. (SBU) JCAB Commissions Independent Business Aviation Study

The Japan Civil Aviation Bureau (JCAB) has commissioned a comprehensive, independent study into business aviation comparing conditions overseas with those in Japan, according to members of the ACCJ Transportation and Logistics Committee speaking to econoff October 29.

ACCJ members also reported that Kenichi Saito, Deputy Director of the MLIT General Affairs Division, is the official in charge of the study, which will be outsourced to a private Japanese firm and is expected to be completed by the end of March next year.

On Oct. 22 Nagoya Consulate officials met with Kenichi Saitou, Deputy Director of JCAB's General Affairs Division to discuss business aviation. (ECON: Charlotte Crouch)

¶13. (SBU) Aviation Workers' Union Request Investigation into U.S. Fighter "Tailing" Incident

Japan Federation of Aviation Workers' Union (JFAU) Chairman Hiroya Yamaguchi met Econoff October 26 to convey the union's concerns about an August incident involving a U.S. military jet and a JALways commercial airliner near Guam. Yamaguchi said JFAU reported the incident to the Ministry of Foreign Affairs and Japanese Civil Aviation Bureau on September 27, but have so far received no reply from the GOJ. The TBS television network reported that JFAU along with related labor union officials had visited the Embassy to convey their concerns about the incident. See Tokyo 5024 for more details. (ECON: Charlotte Crouch)
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14. (U) Pilots Survive Fiery Fighter Crash

Japanese police searched a Mitsubishi Heavy Industries factory November 1 as a result of the jet crash. The Japanese F-2 fighter jet burst into flames just after takeoff at Nagoya airport in central Japan on October 31. Both pilots escaped with minor injuries. Following the incident, eight personnel from the Aichi Prefectural Police searched Mitsubishi's Komaki Minami factory, according to a company spokesman. A Mitsubishi executive has also publicly apologized for the accident. (ECON: Charlotte Crouch)

BUSINESS ASSOCIATIONS

15. (SBU) Japan - Australia FTA Talks: Round 3 in Canberra, November 5-8

Japan and Australia have agreed to hold the next round of their free trade agreement negotiations in Canberra November 5-8. According to a statement on the MOFA website, the agenda will include trade in goods and services, investment, IPR, government procurement, energy, and other items.

Deputy Foreign Minister Masaharu Kohno will lead the Japanese delegation, joined by Vice Agriculture Minister Hidenori Murakami. Deputy Secretary of Foreign Affairs and Trade, Peter Grey, will head up the Australian negotiating team.

The two sides, according to an October 21 story in Agricultural News, could only agree to "exchange views on farming conditions" in their respective countries. According to sources familiar with the talks, no progress on agriculture was made at the last round in Tokyo in August. Click here to view announcement from MOFA and here to view the announcement from MAFF. (ECON: Nicholas Hill/Ryoko Nakano)

16. (U) Toshiba Chairman Okamura to Head the Japan Chamber of Commerce

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Tadashi Okamura, 69, Chairman of Toshiba Corporation, was formally inaugurated as Chairman of the Tokyo Chamber of Commerce & Industry (TCCI) on November 1. Okamura will also assume the chairmanship of the Japan Chamber of Commerce & Industry (JCCI) as of November 15, following the tradition of TCCI Chairman concurrently serving as the head of JCCI.

JCCI currently represents 517 local chambers with 1.43 million companies in Japan. It is one of Japan's four major business organizations along with Nippon Keidanren (Japan Business Federation), Keizai Doyukai (Japan Association of Corporate Executives) and Kankeiren (Kansai Economic Federation).

Okamura's appointment follows months of twists and turns as former JCCI Chairman Nobuo Yamaguchi searched in vain for a

successor. Yamaguchi had no alternative but to ask Keidanren Chairman Fujio Mitarai for his help in finding the proper person for the post. Amid the turmoil, Okamura resigned his TCCI vice-chairmanship and assumed the vice-chairmanship of Keidanren, but after Mitarai's persuasion Okamura agreed to head TCCI. (ECON: Satoshi Hattori)

¶17. (SBU) Keidanren Official Discusses Japanese ODA to Angola and TICAD

In anticipation of Japan's hosting of the Fourth Tokyo International Conference on African Development (TICAD IV) and the G-8 summit next year, the Japan Business Federation (Keidanren) led a delegation of 50 representatives from the private and public sectors to Angola and South Africa October 11-18.

According to Keidanren International Cooperation Bureau Manager Kanji Hayashi, the GOJ is considering offering Angola development assistance in the form of yen loans to help rebuild critical infrastructure damaged by years of civil war. Citing the high cost of importing Angolan oil to Japan, Hayashi played down the role of "resource diplomacy" in making the trip and stressed the GOJ consideration of Angola as a model for African development that can be applied elsewhere on the continent.

Hayashi stated many are frustrated with TICAD's lack of progress. TICAD has been "just a bunch of bureaucrats holding lots of meetings," he said. Keidanren, he noted, is advocating for industry participation in TICAD IV to "get beyond the talk" and produce concrete results. (ECON: Sally Behrhorst/Eriko Marks)

SPORTS

¶18. (SBU) Ozawa, Yosano Go Toe-to-Toe

Democratic Party of Japan (DPJ) leader Ichiro Ozawa defeated former Liberal Democratic Party (LDP) Chief Cabinet Secretary Kaoru Yosano in a nationally televised game of Go on October 21. The two-and-a-half hour match began in Yosano's favor, but ended decisively for Ozawa.

Yosano could not hide his embarrassment at the loss. He had joked at the end of August (while still chief cabinet secretary) that it was he who had taught Ozawa how to play the

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game of strategy. Ozawa characterized his victory as revenge for a loss that occurred more than 20 years ago. (ECON: Marc Dillard/Ryoko Nakano)

¶19. (U) BP Ford Racing Team Solidifies WRC Lead with Rally Win in Hokkaido

In Hokkaido's Tokachi region, Finnish driver Mikko Hirovonen powered over the competition in his Ford Focus to win the 14th stage of the FIA World Rally Championship (WRC) October 26-28.

With the win, the BP Ford racing team solidified its commanding lead in the WRC standings. If BP Ford can hold onto this lead over the remaining two stages of the race in Ireland and

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England, it will win its second championship in a row.

Usually associated with agriculture, the Tokachi region has hosted Asia's only leg of the European racing championship since 2004. Over 243,000 race fans turned out for the three-day Rally Japan event this year. With the high local interest in auto racing, Tokachi would be a prime candidate for hosting

a NASCAR race should the organization ever decide to expand to Japan. (Sapporo: Ian Hillman/Yumi Baba)

120. (U) A Dynasty Is Born?

It was the best of times and the most awesome of teams. The Boston Red Sox are champions of the baseball world after dispatching Kaz Matsui and the Colorado Rockies in four straight games.

The Boston team won its second World Series in four years and is now only 19 championships behind the Yankees.

Tokyo is preparing for the return of Daisuke Matsuzaka and Hideki Okajima, two key members of the Red Sox pitching staff, for a little rest and relaxation after the longest season of their lives. (ECON: Nicholas Hill)

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122. (U) This SENSITIVE BUT UNCLASSIFIED e-newsletter from U.S. Embassy Tokyo's Economic Section, with contributions from the consulates, is for internal USG use only. Please do not forward in whole or in part outside of the government. The Scope is edited this week by Charlotte Crouch (CrouchCA@state.gov) and Joy Progar (ProgarJ@state.gov). Please visit the Tokyo Econ Intranet webpage for back issues of the Scope. Apologies, this option is only available to State users. Please contact Joy Progar if you are from a different agency and are interested in a back issue.
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